

# **FISCAL NOTE**

## **HB 3157 - SB 3293**

February 18, 2008

**SUMMARY OF BILL:** Exempts from state and local sales tax the retail sale of motor vehicles at least ten years old with prices less than \$10,000.

### **ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact - \$15,608,700**

**Decrease Local Revenue – Net Impact - \$5,838,600**

Assumptions:

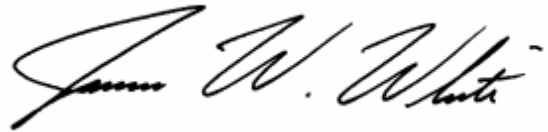
- According to the Department of Revenue, and based on data from the National Automobile Dealers Association, the retail value of used vehicles sold in Tennessee is approximately \$5.9 billion per year, consisting of approximately 380,000 transactions per year.
- Fifteen percent of such vehicles are sold to tax-exempt entities under current law; 85 percent are considered taxable.
- Twenty percent of such vehicles are at least ten years old with sales prices under \$10,000 each.
- The average price of vehicles ten years old or more is estimated to be \$3,500 each.
- Taxable sales are estimated to be \$226,100,000 ( $380,000 \times 85\% \times 20\% \times \$3,500 = \$226,100,000$ ) per year.
- The current state sales tax rate is seven percent.
- The current state single article tax is two and three-fourths percent on the portion of the sales price exceeding \$1,600, but less than \$3,200.
- The decrease of state sales tax revenue attributable to the seven percent rate is estimated to be \$15,827,000 ( $\$226,100,000 \times 7.0\% = \$15,827,000$ ) per year.
- The decrease of state sales tax revenue attributable to the single article tax is estimated to be \$533,000 [ $(380,000 \times 85\% \times 20\%) \times (\$3,500 - \$3,200) \times 2.75\% = \$532,950$ ] per year.
- The total decrease of state sales tax revenue is estimated to be \$16,360,000 ( $\$15,827,000 + \$533,000 = \$16,360,000$ ) per year.
- Local governments are allocated a 4.5925% share of state sales tax revenue under current law.

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- The local portion of state-shared sales tax revenue is estimated to be \$751,300 ( $\$16,360,000 \times 4.5925\% = \$751,333$ ) per year.
- The net decrease to state revenue is estimated to be \$15,608,700 ( $\$16,360,000 - \$751,300 \text{ local share} = \$15,608,700$ ) per year.
- The local option sales tax rate is estimated to average two and one-quarter percent.
- The decrease of local government revenue attributable to local option sales tax revenue is estimated to be \$5,087,300 ( $\$226,100,000 \times 2.25\% = \$5,087,250$ ) per year.
- The net decrease of local government revenue is estimated to be \$5,838,600 ( $\$5,087,300 \text{ local option} + \$751,300 \text{ state-shared} = \$5,838,600$ ) per year.

**CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "James W. White". The signature is fluid and cursive, with the first name "James" written in a smaller, more compact script than the last name "White".

James W. White, Executive Director

/rnc